

Message Text

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ORIGIN TRSE-00

INFO OCT-01 EUR-12 EA-10 ISO-00 EB-08 SS-15 CIAE-00
DODE-00 PM-05 H-01 INR-10 L-03 NSAE-00 NSC-05
PA-01 SP-02 USIA-06 AID-05 COME-00 FRB-03 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 STR-07 CEA-01 DOE-11
SOE-02 /119 R

TREASURY

DRAFTED BY TREASURY:ITR:MRYSS:SMCP
APPROVED BY EA/J:NPLATT
TREASURY - MR. HUFBAUER (DRAFT)
TREASURY - MR. RASMUSSEN (DRAFT)
EB/IFD/ODF - MR. PARKER
EA/J - MR. BROWN
EA/PRCM - MR. HALLFORD
E - MR. COOPER

-----045869 161706Z /47

O 161611Z PEB 78
FM SECSTATE WASHDC
TO AMEMBASSY TOKYO IMMEDIATE
INFO AMEMBASSY PARIS IMMEDIATE
USLO PEKING
AMEMBASSY BRUSSELS

C O N F I D E N T I A L STATE 041081

PARIS FOR USOECD FOR USDEL TO EXPORT CREDIT TALKS, USEEC

E.O. 11652: GDS

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TAGS: EFIN, ETRD, CH, JA

SUBJECT: ALLEGATIONS OF US CRITICISM OF CREDIT PROVISIONS
IN JAPAN-CHINA LONG-TERM TRADE AGREEMENT

REF: 78 TOKYO 2463

1. WE FULLY AGREE EMBASSY CONCLUSION PARA 2 REFTEL THAT

JAPANESE "MAY BE TRYING TO PASS A SHARE OF THE RESPONSIBILITY TO THE US FOR THE FAILURE TO MEET CHINA'S DESIRES RE CREDIT TERMS." THERE HAVE BEEN NO RPT NO FORMAL OR INFORMAL PROTESTS BY WASHINGTON OFFICIALS ON CREDIT PROVISIONS OF JAPAN-CHINA LONG-TERM TRADE AGREEMENT.

2. VARIOUS USG OFFICIALS HAVE PERIODICALLY EMPHASIZED IMPORTANCE OF JAPAN OBSERVING TERMS OF EXPORT CREDIT CONSENSUS GUIDELINES AND NOT RPT NOT BREACHING SPIRIT AS WELL AS LETTER OF CONSENSUS. FURTHER, WE HAVE URGED JAPANESE NOT TO AGGRESSIVELY PROMOTE EXPORTS USING EXPORT CREDITS BUT HAVE NOT RPT NOT SPECIFICALLY REFERRED TO TRADE WITH CHINA. NEGOTIATIONS ARE NOW IN FINAL STAGE ON A NEW INTERNATIONAL ARRANGEMENT ON EXPORT CREDITS TO SUCCEED THE PRESENT CONSENSUS. WE HAVE PUT FORWARD A PROPOSAL WHICH CALLS FOR SOME INCREASE IN INTEREST RATES WHICH MIGHT AFFECT A JAPAN-CHINA CREDIT AGREEMENT BUT THIS IS STILL TO BE NEGOTIATED.

3. IN GENERAL, PRESS REPORTS CITED IN REFTTEL APPEAR TO REFLECT BOTH FACTUAL AND FICTIONAL REFERENCES TO JAPANESE COMMITMENTS AND STATE OF NEGOTIATIONS. FOR EXAMPLE, THERE HA, BEEN NO USG PROPOSAL TO LIMIT EXPORT CREDITS TO INTERMEDIATE COUNTRIES (CHINA, USSR, ETC.) TO FIVE YEARS. PRESENT CONSENSUS PROVIDES THAT MAXIMUM REPAYMENT TERM FOR CREDITS TO SUCH COUNTRIES IS 8 1/2 YEARS WITH A MINIMUM CONFIDENTIAL

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INTEREST RATE OF 7.75 PERCENT. THE CONSENSUS ALSO PROVIDES THAT IF THE REPAYMENT PERIOD FALLS IN THE 2-5 YEAR RANGE, A MINIMUM INTEREST RATE OF 7.25 PERCENT APPLIES. SINCE A CERTAIN TIME PERIOD IS ALLOWED FOR CONSTRUCTION OF THE PLANT AND EQUIPMENT NORMALLY SOLD UNDER THESE CREDIT PROGRAMS, THE JAPANESE APPEAR TO BE TELLING THE PURCHASING COUNTRY THAT THEY ARE PROVIDING EIGHT-YEAR CREDITS, I.E. FIVE-YEAR REPAYMENT TERMS PLUS THREE-YEARS' GRACE FOR CONSTRUCTION.

4. AS EMBASSY IS AWARE, USG IS PROPOSING AN IMPROVEMENT IN THE PRESENT CONSENSUS WHICH IS DESIGNED TO REDUCE THE CONCESSIONAL ELEMENT OF EXPORT CREDIT FINANCING. (FYI: JAPANESE DEL HAS INDICATED WILLINGNESS ACCEPT MOST RECENT US PROPOSAL IF EC ALSO AGREES. END FYI) IF JAPANESE EXPORT-IMPORT BANK IS NOT INVOLVED IN FINANCING TRADE WITH CHINA, COMMERCIAL INTEREST RATES WOULD MOST LIKELY BE SUBSTANTIALLY HIGHER.

5. A CREDIT AGREEMENT BETWEEN JAPAN AND CHINA TO SUPPORT A LONG-TERM TRADE AGREEMENT SHOULD AT LEAST OBSERVE CONSENSUS CONDITIONS. IF VERY CONCESSIONAL FINANCING IS OFFERED IN THAT MARKET, IT

WOULD BE INCONSISTENT NOT TO PROVIDE CONCESSIONAL FINANCING TO DEVELOPING COUNTRIES. SUCH A SERIES OF ACTIONS WOULD CREATE THE CONDITIONS OF AN EXPORT CREDIT WAR WHICH WOULD BE VERY DETRIMENTAL TO THE WHOLE FABRIC OF INTERNATIONAL TRADE.

6. THE US URGED ITALY AND FRANCE NOT RPT NOT TO EXTEND THEIR BELOW CONSENSUS INTEREST RATES TO THE USSR BUT THOSE COUNTRIES MAINTAINED THAT THE CREDITS FELL WITHIN THE CATEGORY OF PRIOR COMMITMENTS AND WERE NOT IN VIOLATION OF THE CONSENSUS AGREEMENT. A JAPANESE CREDIT TO CHINA (OR TO OTHER COUNTRIES FOR THAT MATTER) AT THIS TIME SHOULD BE ON TERMS WHICH DO NOT VIOLATE THE CONSENSUS AND CONFIDENTIAL

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SHOULD BE FLEXIBLE ENOUGH TO PROVIDE AN OPPORTUNITY FOR RENEGOTIATION IF THERE IS INTERNATIONAL AGREEMENT IN THE FUTURE TO RAISE MINIMUM INTEREST RATES OR OTHERWISE MAKE OFFICIAL EXPORT CREDIT FINANCING LESS CONCESSIONAL IN

CHARACTER. AT THE SAME TIME WE DO NOT WANT TO GIVE ANY IMPRESSION THAT USG IS EXERTING PRESSURE ON JAPANESE DIRECTED EXCLUSIVELY AT THE SPECIFIC TERMS OF LTA WITH CHINA. REFERENCES TO US POLICY ON OFFICIALLY SUPPORTED EXPORT CREDITS SHOULD BE KEPT IN INTERNATIONAL CONTEXT.

7. EMBASSY MAY TELL KONO AND PRESS THAT USG HAS MADE NO RPT NO APPROACH TO GOJ ON CREDIT PROVISIONS OF CHINA LTA. WE DO NOT KNOW WHAT SPECIFIC CREDIT PROVISIONS OF LTA ARE. WE HAVE NO REASON TO BELIEVE THAT PROVISIONS WILL BE INCONSISTENT WITH EXPORT CREDITS CONSENSUS GUIDELINES. VANCE

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*** Current Classification *** CONFIDENTIAL

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